



December 20, 2009

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.

Attention: Docket No. R-1377

Re: Federal Reserve Board Proposed Rule to Amend Regulation E under Title IV of the Credit Card Accountability Responsibility and Disclosure Act of 2009

Dear Ms. Johnson:

This letter is submitted on behalf of the Center for Financial Services Innovation (CFSI) in response to the Proposed Rule that was issued in the *Federal Register* on November 20, 2009 at 74 *Fed. Reg.* 60986-61012. The Proposed Rule is intended to amend Regulation E, which implements the Electronic Fund Transfer Act, in response to Title IV of the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act").

The Federal Reserve Board requests comments regarding fees, expiration dates, and disclosures related generally to gift cards and to a lesser extent, other types of prepaid cards. Among other things, the Federal Reserve Board requests feedback regarding certain exclusions from the Proposed Rule, including whether non-gift general purpose reloadable cards that are initially sold as non-reloadable cards should be subject to the gift card rules. (Preamble, 74 *Fed. Reg.* 60993.) Our comments will address this particular request.

CFSI is a nonprofit affiliate of ShoreBank Corporation. CFSI works with banks, credit unions, technology vendors, alternative financial service providers, policy makers, and consumer advocates to forge relationships, products, strategies, and public policy that will transform industry practice and the lives of underbanked consumers across the economic, geographic, and cultural spectrum.

As an organization that is focused on the financial services needs of the 40 million underbanked households in the U.S., we are particularly attuned to the financial products and services that underbanked families use to meet their transaction, savings, and credit needs. Over the past half decade, we have conducted consumer and industry research to develop broad product understanding and consumer knowledge of the underbanked consumer segment. We have researched and written extensively about consumers' use of general purpose reloadable cards. Our first publication on the topic, *Stored Value Cards: A Scan of Current Trends and Future Opportunities*, was released in July 2004, and our most recent research, *A Tool for Getting by or Getting Ahead? Consumers Views on Prepaid Cards*, was published in April 2009, as was an in depth survey of consumers' satisfaction



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with general purpose reloadable cards. Our research confirms that underbanked consumers are increasingly turning to these cards as reliable financial transaction products.

We commend the Federal Reserve Board in the attention it has given to the development and application of the Proposed Rule for gift cards. We are particularly grateful for the Federal Reserve Board's acknowledgement and careful distinction between the different types of prepaid cards and its care to develop and apply the appropriate rules to the different card products.

This letter is in response to the specific request for comment regarding the appropriate treatment of non-gift general purpose reloadable cards that are initially sold as temporary, non-reloadable cards ((20(b)(2)-4.i.). The Federal Reserve Board is concerned that without including these temporary cards under the gift card rule, consumers who buy the cards but do not register them (and thus only use the temporary cards) will be left without protections afforded under the CARD Act. On the other hand, if the gift card rules are applied to the temporary cards, then general purpose reloadable cards would not necessarily be excluded from the gift card rules.

CFSI believes general purpose reloadable cards are unique and significantly distinct from gift cards, which are the focus of the CARD Act. Unlike gift cards, general purpose reloadable cards are increasingly being used by consumers as alternatives to bank accounts. Our research shows that consumers are choosing and continuing to use these cards for their convenience, accessibility, immediate liquidity, simplicity and transparency, value, and built in discipline. At the same time, the prepaid card industry continues to grow and general purpose reloadable cards are emerging with expanded functionality, including savings, bill payment, and credit capabilities.

Although the temporary cards issued with general purpose reloadable products are limited in the amount of money that can be added to them, they are nevertheless a core component of the general purpose reloadable product and an essential step in facilitating the account opening process. The temporary card provides the consumer with a product that can be used immediately to transact, while allowing time for the provider to verify the consumer's identity and issue the permanent card. We believe treating these temporary cards as gift cards would lead to consumer confusion and negative consequences for the products and the industry, as the business models of these products would likely be adversely affected. We believe the effects of these changes would be particularly acute given the current financial environment and the rise in number of consumers who are choosing not to use bank accounts.

Given the significant differences between general purpose reloadable cards and gift cards and the costs and challenges likely to result in the application of the gift card rules to the temporary cards, we recommend that the Federal Reserve Board *not* apply the gift card rules proposed here to these temporary cards. Instead, we recommend the Federal Reserve Board set out to examine the general purpose reloadable card model and market, including an analysis of consumer demand for and industry suppliers of the general purpose reloadable cards. Following such careful analysis, the



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Federal Reserve Board would be well positioned to develop appropriate rules that ensure protections for consumers and soundness for the industry, thus supporting a product that offers real promise for meeting underbanked consumers' financial services needs and enhancing families' financial well-being.

We sincerely appreciate the opportunity to provide comments and guidance on this topic and we look forward to the Federal Reserve Board's final rule on the matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Melissa Koide", written in a cursive style.

Melissa Koide
Policy Director